

**AGENDA ITEM 3b
INTERNAL AUDIT SUMMARIES
AS OF JUNE 30, 2011**

Internal Audit Summaries for Fourth Quarter of 2010-11

Review of the Regional Offices

Why Audit Services Did this Review

The primary objective of our review was to assess the controls over the operations of the Regional Offices.

What Audit Services Found

- Protection of member information could be strengthened on check logs and training workbooks. Additionally, fax machines are not always properly secured during non-business hours to protect member information.
- Policies and procedures for daily operations are in draft and have not been distributed to staff. Additionally, the draft procedures do not address the usage of CalPERS owned or leased vehicles.
- Training records are not consistently maintained and the access to the training database is not properly restricted.
- Regional Offices do not document their processes for developing annual training plans for member education.
- Vehicle mileage and sign-out logs were not consistently maintained and complete.
- Check logs submitted to the Fiscal Services Division did not indicate the Regional Office staff who prepared and reviewed the logs.
- The physical security of the Walnut Creek Regional Office could be enhanced. Checks received from members in the Walnut Creek Regional Office were not secured during business hours.

What Audit Services Recommends

- Regional Offices properly protect member information and ensure that fax machines are properly secured.
- Regional Offices finalize and distribute its policies and procedures manual and ensure it addresses vehicle usage.
- Regional Offices ensure training records are consistently maintained and access to the training database records is properly secured.
- Regional Offices document their processes for developing annual training plans.
- Regional Offices ensure mileage and vehicle logs are complete and accurate.
- Regional Offices require staff to indicate who prepares and reviews the check logs.
- Management ensure the physical security at the Walnut Creek Regional Office is enhanced to protect member information, staff, visitors, and assets, and that staff adequately secure checks received.

Management's Response and Action Plan to Strengthen Controls

Management concurs and has implemented steps to address the audit findings and recommendations.

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Positive Controls Noted

Regional Office staff follow a standardized process for providing customer service. Staff is provided a five-week training course on various program areas and continuous training throughout the year to ensure staff have sufficient knowledge to provide customer service. In addition, staff duties are clearly defined and adequately separated. The Regional Offices provide a formal reporting structure and management ensures issues are resolved timely.

To measure its performance, the Regional Offices use automated systems to capture the volume of members served daily and the customer satisfaction survey results. The performance results are shared with Customer Service and Outreach Division management, formerly known as Customer Service and Education Division.

Regional Office staff follow most of the information security protocols to adequately safeguard CalPERS assets and information. For example, staff request members to present identification prior to providing service and releasing member information. After the member service is complete, staff properly conclude the session.

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Review of Member Home Loan Program

Why Audit Services Did this Review

The primary objective of this audit was to assess the adequacy of program oversight and monitoring efforts for the Member Home Loan Program (MHLP).

What Audit Services Found

Our analysis of member correspondence revealed that CitiMortgage is not processing MHLP personal loan *Delinquency* letters within the programs established guideline of 120 days after payment was due. In addition, Benefit Services Division is not processing the personal loan *Warning of Default* letters at 210 days and *Default* letters at 270 days after payment was due.

We also found that Investment Office's Affiliate Investment Programs Division (AIPD) has not received several reports from CitiMortgage as required by its contract, including monthly or quarterly Home Mortgage Disclosure and Community Reinvestment Act reports, a monthly Consolidated Commitment report, or an annual contract compliance checklist. In addition, some required CitiMortgage reports were inaccurate.

What Audit Services Recommends

Benefit Services Division should continue monitoring the timeliness of CitiMortgage's personal loan *Delinquency* letters and document efforts to work with CitiMortgage on improving the processing of letters. In addition, Benefit Services Division should send personal loan *Warning of Default* letters and *Default* letters to members within the established guidelines.

AIPD should ensure that all reports required by CitiMortgage's contract are received timely and contain accurate information. If the reports are no longer needed to manage the MHLP, the report requirements should be removed from the contract.

Management's Response and Action Plan to Strengthen Controls

Management concurs with Audit Services' observations and plans to implement the recommendations.

Positive Controls Noted

Other aspects of MHLP personal loan processing were appropriately handled. For example, Benefit Services Division accurately prepared the 1099-R worksheets for a sample of members that defaulted in 2010. Member Services Division entered MHLP personal loan payoffs into a database in a timely manner. Similarly, Fiscal Services prepared accurate and timely reconciliations for MHLP personal loans, personal loan defaults, jumbo loans, and cash in the MHLP fund. Finally, AIPD accurately determined CalPERS' share of the warehouse yield income for MHLP and used understandable reports provided by CitiMortgage to manage MHLP.

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Review of Kaiser Foundation Health Plan, Inc.

Why Audit Services Did this Review

The primary objective of our review was to assess Kaiser Foundation Health Plan, Inc.'s (Kaiser) compliance with specific provisions of the Public Employees' Medical and Hospital Care Act and the agreement between Kaiser and the California Public Employees' Retirement System (CalPERS).

What Audit Services Found

We found the agreement includes two Attachments with inconsistent target thresholds for three customer service performance measures, and one measure with no defined methodology. For phones measures, Kaiser does not have a dedicated CalPERS phone line and is unable to provide CalPERS specific reports as required. Further, the agreement does not use consistent agreed upon terminology. For identification cards, Kaiser's system is also unable to differentiate between identification cards processed during the open enrollment period and new member enrollment for CalPERS specific members as required. We also found Kaiser did not submit quarterly reports on efforts to reduce grievances and the ongoing results of these efforts, which was also recommended in a prior review completed in 2005. Kaiser also did not submit the Regions Outside of California report timely due to data accuracy issues. Subsequent to fieldwork, Kaiser has since resumed submission of the report.

What Audit Services Recommends

Kaiser should work with the Office of Health Plan Administration to provide the required information or modify future agreement language, use consistent targets throughout the agreement, and ensure the methodology is defined for all customer service performance measures. Kaiser should continue to submit the Regions Outside of California report timely.

Kaiser's Response and Action Plan to Strengthen Controls

Kaiser concurs with Audit Services' observations and plans to implement the recommendations.

Positive Controls Noted

We found the membership and premium data comparisons to be accurate. We sampled Medicare eligible members and found they were appropriately excluded from the Kaiser Basic plan, annuitants had retired within 120 days of separation, and disabled dependent certifications were on file to qualify for coverage. For customer service measures, *Evidence of Coverage Booklets* and *Time to Respond to Written Correspondence*, the information reported to CalPERS was consistent with our independent calculation. For reporting, Kaiser met the specific reporting requirements we selected for review. In addition, Kaiser maintained the required insurance for directors' and officers' liability and workers compensation insurance and maintained national accreditation throughout the term of the agreement. Finally, Kaiser met the requirement to submit an annual contribution to Pacific Business Group on Health, a group who represent public sector and industries on health care issues.